

Catella: Investor appetite for residential investments increases in Europe

A research report compiled by IPD and Catella shows that the residential markets in Europe are in focus for investors today. The residential sector has become the strongest performing property sector over the past decade, even though there have been significant differences in returns and drivers of performance between countries and local markets.

In the study, Catella and IPD have analysed the current state of seven residential markets in Europe (Denmark, Finland, France, Germany, Sweden, the Netherlands and the United Kingdom) and have identified a number of features suggesting developing trends.

“The strong demand for residential property in recent years has been based on its outperformance together with a well-balanced risk-return profile compared to commercial sectors, such as office and retail, which form the major part of the portfolios of most institutional investors,” says Dr. Thomas Beyerle, Group Head of Research at Catella.

The residential sector in these markets recorded an annualised total return of 6.6% p.a., made up of a relatively low income return of 4.1% p.a., but strong capital growth of 2.4% p.a. over the past 10 years. At a European level, residential was the only sector to avoid negative overall performance throughout this period.

Graph I: Pan-European residential performance



Source: IPD

The performance in France, Sweden and the UK slumped in 2008/2009, but recovered substantially afterwards. However, over the medium term these markets have not yet achieved the returns seen in the previous boom period. The German and Finnish markets were little

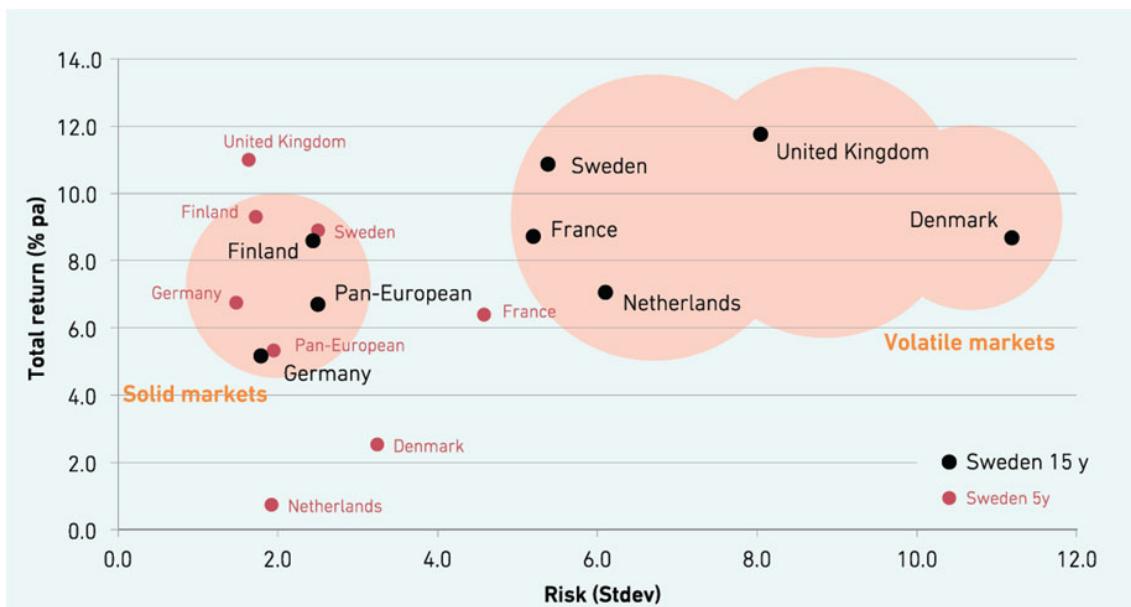
affected by the downturn, achieving stronger capital growth and total returns than before. Denmark and the Netherlands have continued to record low overall total returns.

In most residential markets, capital values are now significantly higher than before the financial crisis started in 2007. Values for the UK, Sweden and Finland are now 20% higher than in 2007, while those for Denmark and the Netherlands are still substantially lower indicating room for potential catch up in capital values.

There are big differences between countries over the long term: on the one hand a group of high returning but volatile markets – Denmark, the UK and Sweden; and on the other quite stable markets such as Germany and Finland.

“In this context it is interesting to compare the long- and medium-term positioning of each market. The results show the importance of reviewing and analysing each market individually, given that they have reached different stages in terms of their current position and market trends. However, from the investor's view entrance into these markets is attractive“, comments Dr. Thomas Beyerle.

Graph 2: Risk-return profile by country in long- and medium-term perspectives



Download the entire report from catella.com.

Catella provides high-end market analysis products and services for the property market. We use our perspectives from the financial markets and experience from investment banking to create truly forward-looking research. Catella's research operations are led by Dr. Thomas Beyerle, Group Head of Research.

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